

Ways of Developing Market Mechanisms in Financing Investment Activities in Uzbekistan

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Abstract:

The aim of this study is to develop ways of developing market mechanisms in financing investment activities in our republic and to study methods of development of financing investment activities. The importance of improving the market mechanisms of financing investment activity was highlighted and suggestions and recommendations were developed based on their analysis.

Keywords: investment, investment activity, financing, market mechanisms, securities, investment fund, mutual funds, small business and entrepreneurial entities, bank credit, gross domestic product, modernization.

Introduction

According to the experience of developed countries, only high rates of savings and investments are not enough for economic growth today. At the stage of transition to the market economy, due to the lack of financing of investment activity, the small contribution of public funds in gross investments, it becomes an objective necessity to attract external sources of investment financing and improve them through market mechanisms. In the conditions of the pandemic, there is a sharp reduction in production and consumption volumes in countries with large economies, disruption of global production chains and trade relations, large amounts of financial resources are spent to restore the economy in exchange for a decrease in the price of raw materials in the world financial markets, rapid increase in the rate of inflation and unemployment in the country leading to an increase in the level. This situation has an impact on the country's GDP, “... every month it can cause the GDP of the countries of the world to decrease by up to 2%”[1].

Due to the coronavirus pandemic and the global economic crisis, the leading countries of the world have developed investment programs to combat the crisis, and the mechanisms for financing the measures provided for in these programs have been formed. Also, on December 20, 2022, in the address “Murojaatnoma” of the head of our state Sh. Mirziyoyev to the Oliy Majlis and the people of Uzbekistan, “...we will further improve the conditions for increasing local and foreign private investments in the economy. We have managed to increase the volume of investments from 30% of GDP in the last six years. Next year, about 30 billion dollars of investment will be attracted, of which 25 billion dollars will be private investments. In particular, we will launch more than 300 projects with a total value of 8 billion dollars, and 40 new large-scale projects will be launched”[2]. Ensuring the implementation of these tasks indicates that the improvement of the scientific and methodological foundations of investment financing is an urgent issue.

At the same time, in our research, when we analyzed the views of a number of economists, it was noted that in their research, the goal of investment activity, that is, the need to achieve income or other results, was indicated.

Literature review

Scientific-theoretical, organizational-economic, socio-political, natural-economic bases of improving the investment environment and attracting foreign investments, including assessment of investment attractiveness and business environment (World Bank and International Finance Corporation), Econometric study of the relationship between the rate of investment, economic growth and other important economic indicators (International Monetary Fund, IMF), investment environment and attraction of foreign direct investment in transition economy countries (European Bank for Reconstruction and Development, EBRD), determinants of foreign direct investment (National Bureau of Economic Research, NBER), attraction of foreign investments in infrastructure projects (Asian Development Bank Institute) related research is being carried out on a large scale. R. Vernon, S. H. Haimar, Ch. P. Kindlberger, F. T. Knickerbocker, E. M. Graham, P. Buckley, M. Kasson, The service of leading foreign scientists such as M.E. Porter, K. Kojima, J.H. Dunning is great. From the studies aimed at studying the characteristics of foreign direct investment in transition economy countries, H.P. Lankes, K.Meyer, D.Holland, R.Barrel, L.Krkoska, H.Tomann, N.Fabri, S.Zigny, K. Scientific works of Kozlov, D. Manaenkov, K. Yudaeva, M. Vernikov should be cited.

Special attention is paid to the issues of foreign investments, promotion of their attraction and effective use in the scientific work of the scientists of our republic. Theoretical aspects of attracting foreign investments and increasing their effectiveness A.Flmasov, A.V. Vakhobov, B.B. Berkinov, N.Kh. Khaidarov, Sh.G'. Yuldashev, S.S. Nasretdinov, D.D. Rustamova, A. Sodikov, N. G. Karimov, N. R. Kuzieva, J. Muinov, K. E. Amonov, L. R. Shayusupova, K. Q. Ismailov, J. Kholtaev, N. Khashimova, S. Chepel, Researched by B.B. Valiev and others. At the same time, the main focus of the existing studies is on the attraction of foreign investments to the national economy, including analysis from the point of view of certain sectors, regions or economic processes.

Acceleration of investment processes in the national economy in the conditions of modernization of the economy requires more attention to the research of the issues of further improvement of the system of stimulating the activity of foreign investors, introduction of new mechanisms of investment attraction.

Research methodology

The research work used systematic analysis, statistical data grouping, Comparative Analysis, regression Analysis and other methods.

Analysis and results

Rapid development of the sectors of the republic's economy, expansion and modernization of production capacities, wide introduction of modern technologies in the industry, service and agricultural sectors, increase in the volume of production of exportable products with high added value, acceleration of investment processes and active attraction of foreign direct investments to the regions as well as creation of high-income jobs in localities and ensuring employment of the population are extremely important issues. Investment and mutual funds, including venture funds, are one of the market mechanisms for financing investment activities in modern conditions. "A joint-stock company is an investment fund, a legal entity that issues shares in order to attract investors' funds and deposits to investment assets"[4].

"A mutual fund is a sum of money that two or more persons - the investors themselves - put into trust management for the purpose of carrying out investment activities"[5].

Table 1 Investment funds and their shareholders

№	Years	Investment fund portfolio, billion soums	Number of shareholders	
			total	including physical
1.	2018	6,3	49 767	49 723
2.	2019	6,4	49 744	49 706
3.	2020	6,37	49 727	49 692
4.	2021	6,9	49 718	49 683
5.	2022	7,0	49 713	49 676

As can be seen from the data of Table 1 above, the investment portfolio of investment funds and the number of shareholders have not changed, and sufficient measures have not been taken to attract citizens' investments through this mechanism. In addition, although the Law "On Investment and Mutual Funds" was adopted in 2015, not a single mutual fund has been established to date.

"Venture fund is an investment company managed by a management company, designed to invest the collected funds only in high-risk venture projects".

Based on advanced foreign experience, we consider it appropriate to adopt a separate state-level program for the development of investment and mutual funds and venture funds, and to accelerate the involvement of citizens and legal entities in this process.

Also, another direction from the market mechanisms of financing investment activities is the attraction of investments by the limited liability company at the expense of increasing the charter fund. The main disadvantage of this form is that the share is placed only among limited persons, and the number of participants in the charter fund does not exceed 50. When we analyzed the number of limited liability companies in the last five years, we came to the conclusion that this form is attractive for entrepreneurs and investors. For example, by the end of 2017, 143,103 limited liability companies were operating in the republic, and by the end of 2021, we can see that their number has increased to 316,903 or 2.2 times.

Table 2 Information about limited liability companies

Territory	2018 year	2019 year	2020 year	2021 year	2022 year
Republic of Uzbekistan	143103	170158	219370	272890	316903
Republic of Karakalpakstan	6993	8235	10329	13006	14683
Andijan	13132	15470	18857	23659	27350

Bukhara	8708	10556	14429	17837	20362
Jizzakh	5105	6564	8797	11411	13311
Kashkadarya	6691	7993	10228	13222	16739
Navai	3624	4781	7249	9226	10826
Namangan	9429	10570	13916	17936	21016
Samarkand	9451	11869	15417	19679	23937
Surkhandarya	4379	5537	7502	9336	11381
Syrdarya	4348	5245	7634	9747	10675
Tashkent	14595	17791	23313	29479	33112
Ferghana	9616	11684	15195	19151	22801
Khorezm	5826	6304	7900	9703	11533
Tashkent city	41206	47559	58604	69498	79177

From the data in the above table, we can see that by the end of 2021, Tashkent region and Tashkent city were the leaders in terms of the number of limited liability companies. Also, within the framework of our research, we consider it appropriate to analyze the current state of financing investment activities at the expense of debt mechanisms.

In the course of our research, we considered whether the issuance of corporate, infrastructure, exchange and international bonds by economic societies is legally guaranteed today. As a result of our studies, it was found that although the enterprises of our republic were given the right to issue infrastructure and stock bonds, they did not use these instruments. The results of our analyzes show that the practice of financing investment activities by issuing corporate bonds has expanded somewhat. (Table 3)

Table 3 Issue of corporate bonds

№	Date	Amount (billion soums)		Quantity (thousands)	
		total	Including LLC	total	Including LLC
1	01.10.2022y.	1006,4	548,24	604,4	231,2
2	01.01.2022y.	783,3	374,13	365,6	41,4
3	01.01.2021y.	281,24	-	472,8	-
4	01.01.2020y.	488,06	-	785,6	-
5	01.01.2019y.	198,06	-	495,6	-
6	01.01.2018y.	251,2	-	549,3	-

As can be seen from Table 2, it can be seen that corporate bonds are gradually being used instead of traditional loans. It is being done only very slowly and in small quantities.

At the same time, in order to provide market participants and investors with reliable and sufficient information about corporate bonds and their issuers, it is necessary to constantly monitor compliance with the information disclosure procedure by corporate bond issuers.

World experience points to the fact that the current rate of investment is insufficient for the current global economic growth. In short, the following circumstances indicate the need to improve the market mechanisms of financing current investments in the market economy:

- Low volume of issuance of shares and bonds through the stock market;
- Non-use of mechanisms for attracting money through investment and mutual funds and investment companies;
- Commercial banks do not fully use project financing mechanisms in project financing;
- "Green" financing mechanisms are not fully used.

The procedure for issuing securities, including shares and bonds, has been simplified, and for the first time in our republic, a normative document defining the procedure for public offering of shares (IPO) has been adopted,[9] until 2025, natural persons were exempted from taxes on dividends, interest on bonds was determined not to be taxed [10].

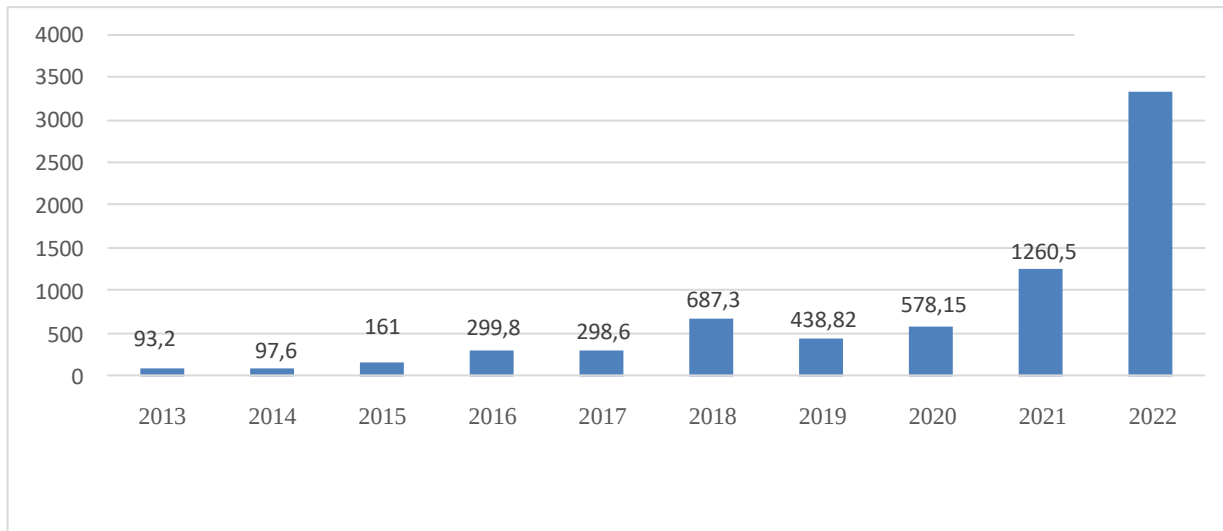


Diagram 1. Transactions made at RFB "Tashkent" amount to billion soums¹

From this chart, we can see that since 2016, stock exchange turnover has increased. It is noteworthy that the turnover at the end of the first half of 2022 is 35 times more than in 2013 and 11 times more than in 2016.

In addition, according to the report of the Capital Market Development Department on the results of the first half of 2022, "as of July 1, 2022, 629 joint-stock companies have a total of 13.3 trillion worth of bonds with a total nominal value of 164,192.9 billion soums in the Central Depository Papers are being counted. Also, 368,000 corporate bonds with a total amount of 770.9 billion soums issued by 12 issuers are being accounted for.

In this case, 81 percent of the total shares belong to the state and 7 percent to the management bodies of the branch economy.

In the first half of 2022, transactions in the amount of 12.7 trillion soums were executed, of which 73 percent corresponded to the contribution of the unorganized market. Since 2017, in our republic, as a result of placing the shares of Kvarts JSC, Ko'qon Mechanics Plant JSC and other companies through IPO, many individuals and legal entities have been attracted to the stock market.

In addition, the list of enterprises whose shares are scheduled to be placed publicly through the stock exchange in 2021-2023 was approved[12].

As a result of the work carried out, we can observe an increase in the number of transactions carried out at RFSM "Tashkent".

The President of the Republic of Uzbekistan also spoke about the state's participation in the economy and said, "...the main problem in the banking system is that the main part of their capital, for example 83 %, belongs to the state. This, in turn, is an obstacle to healthy competition in the banking sector and negatively affects the quality of service. As can be seen from these figures, the corporate bond instrument was hardly used in the stock market, infrastructure and stock bonds were not issued at all.

¹ "Tashkent" was created by the author based on the information of RFSM website

A number of program documents related to the reduction of the state's participation in the economy have been set by the state, including targets such as reducing the number of state-owned enterprises to 75% by the end of 2025, increasing the share of the private sector in bank assets to 60% by the end of 2026. In our opinion, it is necessary for the Government to take all measures and achieve results in order to achieve the set targets.

Summarizing the above, it should be emphasized that the activation of the financing of investment activities is the most important component of the economic requirements designed to ensure real changes in the economic structure of society, to set in motion the entire chain of economic relations of the integral process of social reproduction.

In our opinion, in the conditions of the market economy, we believe that it is appropriate for the state to take the initiative to popularize mutual funds among the population, which are considered a new instrument of investment financing.

The following conclusions were formed in the course of scientific research conducted in our republic on the development of ways to develop market mechanisms in the financing of investment activities:

1. Adopting the Strategy for attracting direct investments and reducing the weight of centralized resources in investment financing sources through the use of public-private partnerships, including concession mechanisms, in the implementation of investment projects in the field of social and road transport infrastructure for the state;
2. It is proposed to further improve the legal documents on the regulation of investments and investment activities. In particular, according to the Law "On Investments and Investment Activities":
 - In connection with the abolition of the practice of selling state objects at "zero" purchase price, the norm of selling objects to investors at "zero" purchase price is excluded from Article 34 of the Law;
 - Reflect in the Law "On Investments and Investment Activities" the requirement to disclose the presence of restrictions on foreign investments in cases based on strategic sectors and industries and their list on the website of the Ministry of Investments and Foreign Trade;
 - Simplifying the dispute resolution procedure in order to attract investors and guarantee their rights, i.e. presenting the mechanism of resolution through international arbitration in a simplified manner;
 - Formation of a single list of benefits and preferences and introduction of a rule on the publication of these lists on a separate portal of the Ministry of Investments and Foreign Trade or the Agency for Attracting Foreign Investments.
3. Sharply increase its share in investment financing sources through wider use of stock market mechanisms;
4. It is necessary to increase the legal literacy of the population in the field of finance, to educate all individuals on the basics of the capital market from the school stage;
5. To expand the resource base of commercial banks and to introduce banking instruments widely used in international experience, to create an opportunity to conclude a sub-participation agreement ("sub-participation") in our republic;
6. Improving the legal basis of privatization processes, which is one of the directions of attracting direct investments, and disclosing reports on the results of privatization and state-owned enterprises.

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